TESTIMONY OF PAUL CICIO

INDUSTRIAL ENERGY CONSUMERS OF AMERICA

BEFORE THE

HOUSE NATURAL RESOURCES COMMITTEE

SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES

“IMPLEMENTATION OF TITLE III, THE OIL AND GAS PROVISIONS, OF THE ENERGY POLICY ACT OF 2005”

APRIL 17, 2007

Good afternoon. I am Paul Cicio, President of the Industrial Energy Consumers of America (IECA). I would like to thank Chairman Costa and Ranking Member Pearce and the Committee for the opportunity to share our views on this important topic. We look forward to working with you.

The US remains in a serious natural gas crisis that started in mid 2000 and we appreciate the efforts by Congress and the Administration to accelerate production of natural gas and in particular, the more efficient processing of permits to drill, greater access to federal lands and the reduction of unnecessary duplicative environmental evaluation. While US prices of natural gas have been, on average, the highest in the world since year 2000, we believe the combined actions by Congress and the Administration have averted much higher prices.

Use of public lands for production of natural gas is essential given the increasing demand for this high quality fuel. For example, it would be impossible for the US to reduce greenhouse gas emissions without increased use of natural gas by all sectors. The US Geological Service (USGS) says that less than 5 percent of our federal lands are used for oil and gas production. In our view, it is in the public interest that such federal lands are used. We believe that the US can increase supply of natural gas without compromising our environment.

In our view, the only reason the US is not rationing natural gas today is because high natural gas prices since year 2000 have significantly contributed to the shutdown of manufacturing plants thru out the country, resulting in the loss of 3.0 million high paying jobs. These plant shutdowns reduced the manufacturing sectors’ natural gas consumption by 23.4 percent since year 2000 which freed up over 1.5 trillion cubic feet of natural gas for other consuming sectors. As a result, the US is balancing its supply of natural gas on the backs of good manufacturing jobs. This is neither good energy, economic nor employment policy. Unfortunately, this trend will continue so long as high relative natural gas prices exist.

According to the Energy Information Administration (EIA), natural gas prices for homeowners, farmers and manufacturers have increased by an average of about 77 percent since year 2000. For every $1.00 per mm Btu increase in the price of natural gas, US consumers will pay $22 billion more each year. In year 2006, consumers paid a staggering $75.7 billion more for their natural gas than they did in year 2000. High natural gas prices directly increase the cost of home heating and cooling; fertilizer and crop drying costs for farmers; and the competitiveness of the manufacturing sector. As significant as these costs are, the total cost impact of high natural gas prices is much greater.

Electricity produced from natural gas is setting the marginal price for electricity in a growing portion of the US, which means, as natural gas prices have gone up, so has electricity prices. Electricity prices have increased by 19.5 percent since year 2000. Consumers will pay $65 billion more per year for electricity than they did in year 2000 and the rate of increase has accelerated. It is unknown what portion of this increase is directly attributable to the higher price of natural gas. Because of higher natural gas and electricity prices, Congress will spend another $2 billion for Low Income Home Energy Assistance Program (LIHEAP) this year.

Besides the above mentioned costs it is essential we add the costs associated with the loss of 3.0 million high paying manufacturing jobs or 18 percent of our total manufacturing employment since year 2000. And, despite three years of robust US economic growth, manufacturing employment has not risen. The high price of US natural gas versus other parts of the world is a deterrent to building new grass root plants here.

High US natural gas prices are completely un-necessary since the US is blessed with an abundant 100 year supply of natural gas, most of which is off-limits to exploration. IECA encourages the Congress to increase domestic production of natural gas by continuing to expand access to federal onshore lands and the outer continental shelf, and provide stable energy and investment policies that reflect the long lead times and financial risk necessary to ensure E&P companies will invest in the United States versus a foreign country. (This is a serious concern since E&P capital and jack-up rigs can easily move to other parts of the world.) Doing so is our best hope for greater supply, reliability and lower natural gas prices for all consumers. The increased supply of natural gas will also be needed to reduce greenhouse gas emissions.

In our view, our country's natural gas supply is fragile. From year 2001 to 2006 natural gas production has fallen by 5.8 percent despite the fact that the number of producing wells increased by 34 percent, according to the EIA. In fact, the E&P industry recently set a 21 year high mark for wells completed. Reinvestment of 100 percent of cash flow by the E&P industry is largely responsible for a small near-term production up-tick.

There is essentially no reserve production capacity like we had in the 1990s and average production per well continues to drop precipitously. Many believe it will take up to five years before we see material production from areas of the Gulf of Mexico recently opened to leasing. The Alaska Natural Gas Pipeline is no closer to startup. Canadian supply has fallen by 4.9 percent since 2001 and represents about 16 percent of our supply. Canadian officials forecast slowing exports to the US.

LNG supply continues to be unreliable and major natural gas producing countries continue to meet with the intention of creating a cartel similar to that of OPEC for crude oil. Three countries, Russia, Iran and Qatar control 58.3 percent of the world reserves and are positioned to control price and terms.

Countries like China and India are investing billions of dollars in oil and gas resources around the world, securing energy for their economic growth. Resource rich countries continue to consolidate state control over their oil and natural gas resources. The majority of these countries is not democratic governments and not considered friendly to the United States.

For all of these reasons, we believe the US remains in the throngs of a serious natural gas crisis that have energy and economic security implications for every American. The Industrial Energy Consumers of America sincerely looks forward to working with the Committee on these important matters.

IECA is a nonprofit organization created to promote the interests of manufacturing companies for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. Corporate board members are top energy procurement managers who are leaders in their industry, technical experts, strongly committed to energy efficiency and environmental progress. Membership companies are from diverse industries which include: paper, steel, chemicals, plastics, food processing, industrial gases, brick, aluminum, cement, brewing, construction products, glass, fertilizer, pharmaceutical.